

DIRECT TESTIMONY

OF

STEVEN R. KNEPLER

ACCOUNTING DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

RECONCILIATION OF REVENUES COLLECTED UNDER FUEL
ADJUSTMENT CHARGES WITH ACTUAL COSTS

CENTRAL ILLINOIS LIGHT COMPANY

DOCKET NO. 00-0724

JULY 2001

1 Witness Identification

2 **Q. Please state your name and business address.**

3
4 A. My name is Steven R. Knepler. My business address is 527 East Capitol
5 Avenue, Springfield, Illinois 62701.
6

7 **Q. By whom are you employed and in what capacity?**

8
9 A. I am a Supervisor in the Accounting Department of the Financial Analysis
10 Division of the Illinois Commerce Commission.
11

12 **Q. What is the function of the Accounting Department of the Illinois**
13 **Commerce Commission?**
14

15 A. The Department's function is to monitor the financial condition of public
16 utilities as part of the Commission's responsibilities under Article IV of the
17 Public Utilities Act ("the Act") and to provide accounting expertise on matters
18 before the Commission.
19

20 **Q. Please describe your background and professional affiliation.**
21

22 A. I graduated from Illinois State University with a Bachelor of Science Degree
23 in Accounting. I am a Certified Public Accountant, licensed to practice in
24 Illinois. I have been employed by the Commission since January 1982. Prior
25 to my employment, I served as an auditor for another State Agency.

26

27 **Q. Have you previously testified before this Commission?**

28

29 A. Yes, I have.

30

31 **Q. What are your responsibilities in this case?**

32

33 A. I have been assigned to this case by the Director of Accounting Department
34 of the Illinois Commerce Commission. I am to review the filing of Central
35 Illinois Light Company ("CILCO" or "Company"), analyze the underlying data
36 and propose adjustments when appropriate.

37

38 Purpose of Testimony

39 **Q. What is the purpose of your testimony in this proceeding?**

40

41 A. The purpose of my testimony is to present the Staff position on the
42 Company's Uniform Fuel Adjustment Clause (FAC) Reconciliation for the
43 year ending December 31, 2000.

44

45 Q. Are you sponsoring any schedules as part of ICC Staff Exhibit 1?

46

47 A. Yes. I am sponsoring the following schedule as part of ICC Staff Exhibit 1:

48 Schedule 1 Reconciliation of FAC Revenues with Actual
49 Costs
50

51 Schedules

52 Q. **Please describe ICC Staff Exhibit 1, Schedule 1, Reconciliation of FAC**
53 **Revenues with Actual Costs.**

54

55 A. ICC Staff Exhibit 1, Schedule 1, presents the Staff FAC Reconciliation
56 compared to the Company proposed FAC Reconciliation. Column (b)
57 presents the Company's proposed FAC reconciliation as reflected in the
58 direct testimony of CILCO witness Glenn L. Davidson.¹ Column (c) reflects
59 Staff adjustments to the Company's reconciliation. Column (d) presents the
60 FAC reconciliation per Staff.

61

62 Q. **Describe the differences between the Company reconciliation and the**
63 **Staff's reconciliation.**

64

¹ See, CILCO Exhibit No. 1.1.

65 A. The Company's reconciliation was determined using the methodology set
66 forth in the December 20, 2000 Order in Docket 99-0468 (i.e., the original
67 order for CILCO's 1999 FAC reconciliation). This order required the
68 following changes in the determination of allowable fuel cost: (1) purchased
69 power is to be included in the computation of system-average cost; and (2)
70 off-system competitive sales are to be included in the CNS component at the
71 system-average cost of energy. As stated previously, CILCO's reconciliation
72 is consistent with the methodology set forth in the December 20, 2000 Order
73 in Docket No. 99-0468.

74
75 I am proposing, for the purposes of the 2000 FAC reconciliation, that the
76 methodology set forth in the Initiating Order (the "Emergency Rule") in Docket
77 No. 01-0253 be used as the appropriate FAC methodology.²

78
79 **Q. What provisions of the Emergency Rule are you referring?**

80
81 A The Emergency Rule clarified that off-system competitive sales should be
82 removed from fuel cost at incremental cost. The Emergency Rule also
83 mandated that purchased power be included in the determination of the
84 system-average cost of fuel.

85

² See, Illinois Commerce Commission On Its Own Motion, Amendment of 83 Adm. Code 425, Initiating Order, Order Date March 7, 2001, Appendix A.

86 **Q. Explain the difference between the methodologies used by the**
87 **Company and Staff.**

88
89 A. Both the Company and Staff reconciliations include purchased power in the
90 determination of the system-average cost of fuel, however, the Company's
91 presentation includes off-system competitive sales in the CNS component at
92 average cost. The Company's reconciliation is based on the methodology
93 set forth in the December 20, 2000 order in the 1999 FAC reconciliation,
94 Docket No. 99-0468.

95
96 Staff's reconciliation includes off-system sales in the CNS component at
97 incremental cost, which is consistent with the Emergency Rule. The use of
98 incremental costs prevents the cross subsidization of the competitive
99 customers by the FAC customers and thus, is an appropriate methodology
100 for the 2000 FAC reconciliation.

101
102 **Q. Are other CNS methodologies available which could be applied to the**
103 **2000 reconciliation?**

104
105 A. Yes. A reconciliation could be determined using the methodology set forth in
106 the Second Notice Order ("Permanent Rule") in Docket No. 01-0253.³ Using

³ See, Illinois Commerce Commission On Its Own Motion, Amendment of 83 Adm. Code 425, Second Notice Order, Order Date June 19, 2001, Appendix A.

the Permanent Rule, purchased power is included in the calculation of system-average cost, however, all competitive sales (not just those outside the service area) are included in CNS at incremental cost and targeting is allowed as part of incremental cost. I have requested that the Company provide a reconciliation using the permanent rules, but I have not yet received that response. When that information becomes available it should be used to supplement the record for the Commission's consideration.

Q. What amount did the Company use to remove costs from off-system sales in its 2000 monthly filings?

A. The Company removed the fuel cost of off-system sales at incremental cost in each of its monthly filings in 2000, which is in accordance with the Emergency Rule.

Q. How did the Company treat its purchased power costs in the determination of system-average fuel cost in its monthly filings in 2000?

A. The Company did not include purchase power costs in the calculation of the system-average fuel cost, which is contrary to the Emergency Rule and the Permanent Rule.

129

130 **Q. Did the Emergency Rule reflect a change in the Commission's policy**
131 **regarding the treatment of purchased power costs in the**
132 **determination of system-average fuel cost?**

133

134 **A.** No, it did not. However, Sections 425.40(h) and (i) were added to clarify
135 that purchased power costs (CCP) are to be included in the determination of
136 the average energy cost for the CNS component. As noted in my rebuttal
137 testimony in Docket No. 99-0468:

138 **All other electric utilities have included the purchased power**
139 **component in the computation of "average fuel cost." Only**
140 **CILCO has interpreted the term "average fuel cost" to mean the**
141 **average generation cost. (Docket No. 99-0468, ICC Staff Exhibit**
142 **3, p. 7).**

143

144 Thus, the above amendments to Part 425 do not signify a change in
145 Commission policy regarding the treatment of purchased power costs.

146

147 Recommendation

148 **Q. What is your recommendation regarding CILCO's 2000 FAC**
149 **reconciliation?**

150

151 **A.** I recommend that the Commission adopt Staff's proposed FAC
152 Reconciliation as reflected on ICC Staff Exhibit 1, Schedule 1, page 1,
153 Column (d).

154

155 Conclusion

156 **Q. Does this conclude your prepared direct testimony?**

157

158 **A. Yes, it does.**

CENTRAL ILLINOIS LIGHT COMPANY
Reconciliation of FAC Revenues With Actual Costs
For The Year Ended December 31, 2000

Line No.	Description (a)	Reconciliation Per Company (b)	Staff Adjustments (c)	Reconciliation Per Staff (Cols. b - c) (d)
1.	Fuel Cost per Income Statement	\$ 115,310,025	\$ (3,887,878)	\$ 111,422,147
2.	Interdepartmental Reclassification	46,124	-	46,124
3.	Deregulated Sales Reclassification	2,693,693	(1,603,992)	1,089,701
4.	Current Under (Over)-recovery Amount	(10,870,655)	5,491,998	(5,378,657)
5.	Subtotal	\$ 107,179,187	\$ 128	\$ 107,179,315
6.	Adjustments to eliminate fuel cost which the fuel adjustment clause is not designed to recover:			
7.	Station Expenses and Freeseproofing	\$ (1,453,242)	\$ (129)	\$ (1,453,371)
8.	Transportation Expenses	(16,253,831)	-	(16,253,831)
9.	Net Generation Fuel Cost	\$ 89,472,114	\$ (1)	\$ 89,472,113
10.	Fuel cost associated with kilowatthours purchased from other utilities (Energy portion only)	87,655,491	(9,205,362)	78,450,129
11.	Adjustment required to eliminate fuel costs associated with kilowatthours to which the fuel adjustment clause (FAC) is not applicable (CNS):			
12.	Sales to other utilities	\$ (41,939,686)	\$ 13,865,002	\$ (28,074,684)
13.	Non-monetary interchanges with other utilities	0	-	0
14.	Sales for resale	(342,934)	35,551	(307,383)
15.	Company Use	(248,044)	22,718	(225,326)
16.	Sales not subject to the FAC	(44,062,045)	(15,612,389)	(59,674,434)
17.	Subtotal CNS Sales (Lines 12-16)	\$ (86,592,709)	\$ (1,689,118)	\$ (88,281,827)
18.	Fuel cost of sales to which the fuel adjustment clause is applicable (Line 9 + Line 10 + Line 17)	\$ 90,534,896	(10,894,481)	\$ 79,640,415
19.	Total fuel cost recovered through the application of base rates and fuel adjustment factors	91,912,470	-	91,912,470
20.	Under (Over)-recovery for the year ended December 31, 2000	\$ (1,377,574)	\$ (10,894,481)	\$ (12,272,055)
21.	Deferred Under(Over)-recovery as of December 31, 1999	10,849,002	(21,945,536)	(11,096,534)
22.	Net Under(Over)-recovered balance at December 31, 2000	\$ 9,471,428	\$ (32,840,017)	\$ (23,368,589)
23.	Balance of Factor Ra at December 31, 2000	1,153,483	-	1,153,483
24.	Balance of 1999 Ro Factor at December 31, 2000 (*)	-	(21,945,536)	(21,945,536)
25.	Ordered 2000 Reconciliation Factor (Factor Ro) Collection / (Refund) (*)	\$ 8,317,945	\$ (10,894,481)	\$ (2,576,536)

Notes:

*...Amount Due Customers:

Ro from 1999 Reconciliation (Column d, Line 24)	\$ 21,945,536
Ro from 2000 Reconciliation (Column d, Line 25)	2,576,536
Total Due	<u>\$ 24,522,072</u>

CENTRAL ILLINOIS LIGHT COMPANY
Reconciliation of FAC Revenues With Actual Costs
For The Year Ended December 31, 2000

Sources:

Column (b)

Column (b), Lines 1-22: CILCO Exhibit 1.1, Direct Testimony of Glenn L. Davidson, Statement of Reconciliation of Fuel Costs.

Column (b), Line 23: CILCO Monthly FAC Filing, for the billing month beginning February 1, 2001, Reconciliation of Under/Over Recoveries with the General Ledger, During the 2nd Prior Month - December, Schedule 7, Column (H), Line 2.

Column (b), Line 24: See, CILCO Exhibit 1.0, Direct Testimony of Glenn L. Davidson, pp. 4-5, lines 81-83.

Column (b), Line 25: Line 22 - Line 23 - Line 24; (See, CILCO Exhibit 1.0, p. 4, Lines 78-81).

Column (c)

Column (c): Column (b) - Column (d).

Column (d)

Column (d), Lines 1-19: CILCO Response to Staff Data Request SRK-001, CILCO 2000 FAC Reconciliation Using Emergency Rule Methodology, (See, Illinois Commerce Commission On Its Own Motion, Amendment of 83 Ill. Adm. Code 425, Docket No. 01-0253, Initiating Order Date March 7, 2001, Appendix A).

Column (d), Line 20: Line 18 - Line 19.

Column (d), Line 21: Staff Brief on Exceptions, Illinois Commerce Commission on its Own Motion vs. Central Illinois Light Company, Docket No. 99-0468, Appendix A, Line 22, June 7, 2001.

Column (d), Line 22: Line 20 + Line 21.

Column (d), Line 23: CILCO Monthly FAC Filing, for the billing month beginning February 1, 2001, Reconciliation of Under/Over Recoveries with the General Ledger, During the 2nd Prior Month - December, Schedule 7, Column (H), Line 2.

Column (d), Line 24: Staff Brief on Exceptions, Illinois Commerce Commission on its Own Motion vs. Central Illinois Light Company, Docket No. 99-0468, Appendix A, Line 24, June 7, 2001.

Column (d), Line 25: Line 22 - Line 23 - Line 24.

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission	:	
On Its Own Motion	:	
-vs-	:	
Central Illinois Light Company	:	00-0724
	:	
Reconciliation of revenues collected under	:	
fuel adjustment charges with actual costs	:	
prudently incurred.	:	

NOTICE OF FILING

TO: Attached Service List

PLEASE TAKE NOTICE that on this 11th day of July, 2001, I have filed with the Chief Clerk of the Illinois Commerce Commission, the Direct Testimony of Steven R. Knepler, copies of which are hereby served upon you.

JANIS E. VON QUALEN
Staff Attorney

Counsel for the Staff of the Illinois Commerce
Commission

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing Notice of Filing, together with the Direct Testimony of Steven R. Knepler, was served upon the parties as indicated on the attached service list by electronic mail and by first class mail, proper postage prepaid, on the 11th day of July, 2001.

JANIS E. VON QUALEN

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